

Report of Financial Examination of
WMI MUTUAL INSURANCE COMPANY

Taylorsville, Utah
as of December 31, 2016

NAIC Company Code #68420

Presented to:



State of Utah
Insurance Department
Salt Lake City, Utah



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May 24, 2018

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with Utah Code Annotated (U.C.A.) §31A-2-204(6)(a), and the rules, regulations promulgated by the National Association of Insurance Commissioners (NAIC), an examination of the financial condition and business affairs has been conducted of:

WMI Mutual Insurance Company
Taylorsville, Utah

Hereinafter referred to as the "Company."

The following report of examination is respectfully submitted.

SCOPE OF THE EXAMINATION

The last full-scope financial examination of the Company, by representatives of the Utah Insurance Department (“Department”), was for the period January 1, 2011 through December 31, 2013. This examination covers the period of January 1, 2014 through December 31, 2016, including any material transactions and/or events occurring subsequent to and noted during the examination. The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in U.C.A §31A-2-204(6)(a) and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

PRIOR EXAMINATION

There were no significant findings noted in the prior examination.

CURRENT EXAMINATION

There were no significant findings or recommendations for inclusion in this report.

COMPANY HISTORY

Western Petroleum Marketers Mutual Insurance Company was licensed by the Department as a mutual life insurance company effective July 1, 1987. The certificate of authority was issued to the Company to transact life and disability insurance.

The name of the Company was officially changed in December 1994 to Western Mutual Insurance Company. In 1999, the Company formed a wholly owned third party administrator, WMI TPA, Inc.

Upon reaching a settlement with another insurer in California, effective December 8, 2010 the Company changed the name from "Western Mutual Insurance Company" to "WMI Mutual Insurance Company. The most recent certificate of authority was issued to the Company to transact Accident & Health, Annuity and Life.

The Company is a mutual life and health insurance company currently licensed in Arizona, Idaho, Montana, Nevada, New Mexico, Utah, and Washington. WMI provides group health and life insurance to employer members of the Western Petroleum Marketers Association (WPMA) and the Montana Retail Association (MRA). Also In addition, the Company offers a Medicare Supplement product and other ancillary items. Due to the Affordable Care Act (ACA), the Company is not permitted to limit its product offerings to only the two association members, but is required to offer its policies to any qualifying employer.

As of the examination date, the Company was actively written in all states that it's licensed in, except for Washington.

Dividends and Capital Contributions

The Company did not receive any capital contributions during the period of this examination. The Company neither declared nor paid any dividends during the period of the examination.

Mergers and Acquisitions

There were no mergers or acquisitions during the examination period.

MANAGEMENT AND CONTROL

Directors

The Company's bylaws indicated that the number of Directors may not be less than five (5) or more than fifteen (15).

The following individuals served as Directors of the Company as of December 31, 2016

Name and Location	Title and Principal Occupation
David T Leo Salt Lake City, Utah	President & CEO WMI Mutual Insurance Company
Craig Kellerstrass Salt Lake City, Utah	President Kellerstrass Oil Company
Craig Eerkes Kennewick, WA	President & CEO, Sun Pacific Energy, Inc.
Benny Hodges Belen, New Mexico	President Hodges Oil Company
Kendall Hatch Salt Lake City, Utah	Attorney (Retired)

Benny Hodges and Craig Kellerstrass replaced Kent Johnson and Roger Baird at the end of their term as of December 31, 2015. Additionally, two board members, Douglas Alexander and Gerry Richardson, passed away in 2016. Their vacancies have not been filled.

Officers

The Company's bylaws provide for officers to consist of the Chairman, a President one or more Vice Presidents, a Secretary, a Treasury, and at the discretion of the Board of Directors, one or more assistant secretaries and/or treasurers. The same person shall not occupy the offices of President and Secretary.

The officers of the Company as of December 31, 2016, were as follows:

Name	Title
David T Leo Salt Lake City, Utah	President WMI Mutual Insurance Company
Craig Eerkes Kennewick, WA	Chairman WMI Mutual Insurance Company
Nancy J Comins Salt Lake City, Utah	Chief Financial Officer/Secretary WMI Mutual Insurance Company

Jim Leigh, WMI's Marketing Director, left the Company in 2016.

Committees and the respective committee members of the Company as of December 31, 2016, were as follows:

Audit Committee	
Kendall Hatch	Chairman
Craig Kellerstrass	

Investment Committee	
Craig Eerkes	Chairman
Benny Hodges	

Compensation Committee	
Kendall Hatch	Chairman
Craig Eerkes	

Holding Company

The Company is a mutual company and thus owned by its policyholders. On October 23, 1999, a holding company structure was created, in which the Company wholly owns its subsidiary third party administrator, WMI TPA, Inc.

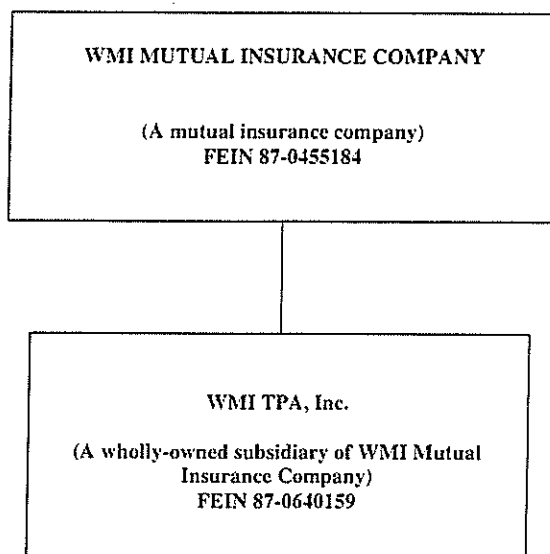
Affiliated Agreements

Subscription Agreement – The Company receives 100,000 shares of capital stock of WMI TPA, Inc. in exchange for the capital contribution of \$50,000.

Intercompany Agreement – Allows WMI TPA, Inc. to sublease office space from the Company, to utilize certain office equipment of the Company on a *pro rata* cost basis, to utilize the Company's computer system and software at the same rate charged to the Company by the third-party vendor, and to have access to and support from certain employees of the Company at their customary rate of pay.

Intercompany Agreement – Allows WMI TPA, Inc. to offer ancillary insurance products of the Company (such as dental, vision, disability and life insurance), at the same rates at which the products are being offered by the Company directly.

CORPORATE ORGANIZATION



TERRITORY AND PLAN OF OPERATION

As of December 31, 2016, the Company was licensed to write business in the state of Arizona, Idaho, Montana, Nevada, New Mexico, Utah, and Washington. The Company is not actively writing new business in the state of Washington.

The Company's high percentage of plans that are grandfathered and "transitional" under the ACA should encourage insured employer groups to continue to remain with the Company as ACA metal plans begin to reflect more accurate (i.e., higher) premium rates. However, in order to remain a viable carrier, it is imperative that the Company attract new clients and prudently increase enrollment without unduly risking profitability and surplus. The Company's new Medigap policies have been approved in Utah, Nevada and New Mexico, and experience has shown the products are competitively priced and attractive to new Medicare- eligible seniors.

REINSURANCE

Ceded

As of the examination date, the company entered into a Medical Excess Reinsurance Agreement with United States Fire Insurance Company effective January 1, 2016. The agreement covers claims between January 1, 2016 through December 31, 2016. However, the agreement allows for claims to be submitted up to 36 months, or December 31, 2019, after they incurred.

The following table summarizes the retention amount and coverage by reinsurer:

Layer	Coinsurance	Limit per Enrollee	Deductible per Enrollee
1 st	100%	\$1,700,000	\$300,000
2 nd	100%	3,000,000	2,000,000
3 rd	100%	10,000,000	5,000,000
4 th	100%	Unlimited	10,000,000

Subsequent to the examination period, the Company entered into a Medical Excess Reinsurance Agreement with Maiden Reinsurance North America, Inc. effective January 1, 2017. The agreement indicated the Company's deductible of \$300,000 per enrollee; maximum reinsurance amount payable per enrollee during the agreement period shall be unlimited.

For their life product, the Company pays the first \$20,000 of basic life. The accidental portion and amounts in excess of \$20,000 are reinsured through Beneficial Life Insurance Company. The Voluntary Group Life program is also reinsured by Beneficial Life Insurance Company on amounts in excess of \$25,000.

Assumed

The Company neither maintained, nor entered into any assumed reinsurance agreement during the examination period.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2016. The accompanying comments (if any) on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Please note that failure of any of the following items to add to the totals shown is due to rounding.

WMI Mutual Insurance Company
Balance Sheet (Assets)
December 31, 2016

	Net Admitted Assets
Bonds	\$8,295,061
Common Stocks	2,936,874
Cash	1,341,929
Subtotals, cash and invested assets	12,573,864
Investment income due and accrued	62,628
Uncollected premiums and agents' balances in the course of collection	44,284
Reinsurance: amounts recoverable from insurers	319,577
Current federal and foreign income tax recoverable and interest thereon	798,743
Receivables from parent, subsidiaries and affiliates	866
Health care	2,350
Aggregate write-ins for other than invested assets	3,918
Total assets	\$13,806,230

WMI Mutual Insurance Company
Balance Sheet (Liabilities, Surplus, and Other Funds)
December 31, 2016

	2016
Liabilities, Surplus, and Other Funds	
Claims unpaid	\$3,933,099
Aggregated health policy reserves	275,713
Premiums received in advance	642,946
General expenses due or accrued	267,841
Net deferred tax liability	306,557
Total liabilities	5,426,156
Surplus	
Gross paid in and contributed surplus	1,388,964
Unassigned funds (surplus)	6,991,110
Total capital and surplus	8,380,074
Total Liabilities, Surplus, and Other Funds	\$13,806,230

WMI Mutual Insurance Company
Statement of Income
December 31, 2016

	2016
Revenues	
Member Months	75,290
Net premium income	\$17,876,404
Change in unearned premium and reserves for rate credits	(37,637)
Aggregate write-in for other health care related revenues	185,108
Total Revenues	18,023,876
Expenses	
Hospital/medical benefits	14,411,613
Other professional services	2,348,094
Outside referrals	709,941
Emergency room and out-of-area	22,037
Prescription drugs	1,288,236
Net reinsurance recoveries	1,583,659
Non-health claims	50,000
Claims adjustment expense	225,549
General administrative expenses	2,966,768
Net underwriting gain or loss	(2,414,704)
Net investment income earned	192,400
Net realized capital gains (losses) less capital gain tax	352,626
Net investment gains(losses)	545,026
Net gain from operations after capital gains tax and before all other federal income taxes	(1,869,679))
Federal and foreign income taxes incurred	(775,398)
Net income (loss)	<u>\$(1,094,281)</u>

WMI Mutual Insurance Company
Capital and Surplus
December 31, 2016

Capital and Surplus Account	2016	2015	2014
Capital and surplus prior reporting year	\$9,297,010	\$7,098,275	\$6,924,135
Net Income or (loss)	(1,094,281)	2,418,556	46,519
Change in net unrealized capital gains (losses) less capital gains tax	(170,397)	(73,414)	16,884
Change in net deferred income tax	(116,240)	(205,212)	73,626
Change in non-admitted assets		51,711	35,151
Aggregate write-ins for gains and losses	463,982	7,094	1,960
Net change for capital and surplus for the year	(916,936)	2,198,735	174,140
Capital and Surplus end of reporting year	\$8,380,074	\$9,297,010	\$7,098,275

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No financial adjustments were made to surplus as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

The Company's capital and surplus in the amount of \$8,380,074 significantly exceeded the authorized control level risk-based capital of \$1,315,935 as of December 31, 2016.

SUBSEQUENT EVENTS

The Company entered into a new Medical Excess Reinsurance Agreement with Maiden Reinsurance North America, Inc. (see REINSURANCE section of this report).

ACKNOWLEDGEMENT

Aaron Phillips, CISA, The Thomas Consulting Group, Inc., reviewed the Company's Information Systems. Peggy Hermann, FSA, MAAA, INS Consultants, Inc. reviewed the actuarial reserving portion of the examination. Luze Pierre, MBA, CFE, CIGA, participated in the examination. Malis Rasmussen MSA, CFE, SPIR, Deputy Chief Examiner, supervised the examination. All join in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully submitted,



D. Shane Sadler, MPA, CFE, SPIR
Examiner-In-Charge
Utah Insurance Department